

## Irreconcilable tensions? The EU's development policy in an era of global illiberalism

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There have always been tensions within the EU's external development policy between ethical and self-interested approaches and also between universalist and realpolitik policies. The EU's structural economic power and global neoliberal dominance have allowed these tensions to be subsumed within its external policies. A range of factors has contributed to the rise of illiberalism globally, leading to heightened geoeconomic rivalry while complex changes in global development governance facilitate the use of aid as an instrument of political and economic self-interest. The EU has reacted to this by re-framing its political approach and policies in an effort to rebalance values and interests. A new realism entered EU discourse and there is evidence of this being applied in specific instruments and policies analysed here. Blended finance instruments are 'dual use' in that they can be used for more flexible development policies but also to support EU businesses more directly. The proposal to combine nearly all of the previous aid and cooperation instruments into one single legal instrument will also give the EU unprecedented flexibility to use aid funds for various political purposes. These changes are part of a more complex iterative process in the case of the EU than for other international actors. Interests and values are being reconfigured rather than jettisoned in a 'realist turn'. However, they still represent a significant adjustment for the EU in terms of aid priorities and modalities.

**Keywords:** illiberalism, geoeconomics, development, framing

### INTRODUCTION

This article addresses the complex relationships between ideas, values, geoeconomics and power in the EU's development policy reforms. The events of 2016 crowned a decade of change that has left the global political economy transformed. In response to a number of existential threats, the EU itself has altered its foreign policy from a universalist globalist liberal (and arguably teleological) approach to a more nuanced particularist and 'realistic' approach. This article analyses how this is shaping development policy and how the changes may be understood. It is argued that changes in global development governance together with 'emerging donor' pressure have led to a great 'loosening up' of global development policy norms, which the EU has promoted and embraced. Changing EU policy is interpreted in terms of international political economy and its ramifications for global normative development goals such as poverty reduction and human development. It is not contended that there has ever been a halcyon era when these values entirely shaped development policy, but rather that these are always in tension with different forms of self-interest and ideological bias. In the new era an arguably sharper element of self-interest is emerging. The major focus of this article is on development aid policy. Two initiatives are considered in some detail: the rise of blended finance instruments and the Commission's 2018 proposal for a single all-encompassing aid instrument for the 2020-2027 budgetary period. Theoretically, the changing geopolitical and policy environment is understood in terms of the ideal types of global neoliberalism and a more realist, geoeconomic, multipolar world order. Global neoliberalism refers to the outlook that privileges private market forces and downplays the role of the state in the economy (Slobodian, 2018), while promoting an ever-integrated global economy based on the legal frameworks of free market capitalism. The counterpoint is a more 'geoeconomic' or 'realist' worldview, which stresses the importance of territorial configurations of power which compete, sometimes, in a zero-sum manner for markets and resources (Luttwak 1991; Gilpin 2001). In the case of aid donors, the global neoliberal framework is deemed to encourage the use of aid as a form of 'liberal globalised

economic diplomacy' while the more realist world order would imply more directly self-interested behaviour.

The paper begins with an overview of the global geoeconomic changes and discusses the implications of this for leading Western states and institutions, in the light of concepts and analytical frameworks from international political economy. The following section explains the changes in global aid governance and fleshes out the different ways in which development aid can serve as a political and economic instrument, ending with an interpretation of the EU's approach here. This is followed by an analysis of the EU's framing of development policy and foreign policy, interpreted in the light of these pressures. After this there is an analysis of the two specific policy initiatives: blended finance and a single integrated financial instrument. The methodological approach here is not very elaborate as the empirical, historical scope of the study is quite large. It analyses the language and seeks to trace the different logics in the various policy initiatives that have taken place since 2010. This is related back to the different interests and theoretical understandings outlined above. The key analytical concept here is that of framing, tracing how political and policy problems and responses are articulated and represented in EU texts (Bøås and McNeill 2004; Daviter 2007; De Ville and Orbie 2011). This is done at the level of key policy and legal documents. While it is noted that these may not determine the nature of aid policy on the ground, they signify the overall priorities and mind-set of the institution. The overall conclusions are cautious. The EU is not susceptible to the kind of dramatic changes that can occur in a single state, such as the US, but clearly a significant adjustment is taking place.

## **THE CHANGING GLOBAL POLITICAL ECONOMY**

It is a truism that liberal globalisation, as a defining dynamic of world order, has been supplanted by a more multipolar system, in which illiberal capitalism is on the march. Characterising any world order is fraught with peril as there are always nuances and counterveiling trends. The world economy has never been entirely free-trade based and globalisation has ebbed and flowed. However, in the decade after 1989, the sense of inexorable globalisation and an expanding global market was all pervasive. Neoliberal market-led approaches to development dominated from Rio to Moscow and even authoritarians such as China appeared to be on a neoliberal 'capitalist road' (Sachs 1995). Of course, this did not mean that national interest and geoeconomic competition did not exist, but it was taking place within a framework of transnational capitalist forces (globalised finance markets, global production and global markets) and laws (to a degree). The World Trade Organization (WTO) and the Uruguay round had been founded on crude trade-offs of interests, but rhetorically at least the major global powers were committed to ever opening markets, competition and transparency. The ideational dominance of neoliberalism was unsurpassed.

The first decade of the 21st century witnessed a process of 'global economic rebalancing' as growth diminished (and financial instability increased) in the Western core, while giant emerging powers, such as China, India and Brazil and a host of 'smaller' developing economies such as Mexico and Turkey achieved impressive economic growth and dramatically increased their weight in the global trade and economic system (Cammack 2012). The outcome is a world that may be described as a multipolar world, a G-20 world or, more negatively, one of increasing disorder (Bremner 2013). (The impact of the COVID-19 pandemic is likely to further accentuate this process). It is an era that offers acute challenges to global institutions as agreements that could be achieved in an era of Western preponderance (the Uruguay Round for example) have proven hard to reach in an era of increased developing country assertiveness. Witness the stalling of the Doha Development Agenda for

example (Narlikar 2010). All of these countries are pursuing capitalist paths to growth, based on engagement with the global economy, but not along the lines of the vision of global liberal capitalism dreamed of during the 1990s (Sachs 1995). Stephen (2014) argues that these emerging powers are only partially integrated with transnational institutions, in terms of membership of transnational companies and participation in institutions like Davos. More importantly their domestic legal and political structures can be characterised as illiberal in terms of lacking transparency, 'openness' and so forth (Stephen 2014). These illiberal rising powers engaged in their own extensive economic diplomacy in the developing world, including aid, again outside of Western liberal frameworks. Fukuyama and Birdsall (2011) label it the 'post-Washington Consensus era', signifying the fading prestige of Western liberal precepts on economic development.

Post-2016, the already substantial cracks in the liberal world order have turned to chasms. The US, the heart of the Western globalist capitalist system, elected a President with profoundly illiberal attitudes to trade. The Trump administration has turned the President's realist mercantilist rhetoric (in which any bilateral trade deficit is assumed to be a loss to the US) into reality to a large extent. The various tariffs it has imposed and the resulting negotiations have been conducted outside of the WTO framework. The Trump administration has also directly attacked the WTO and impaired its operations by failing to nominate officials to key posts, while even threatening to withdraw from the organisation. Trump's general approach could be described as illiberal capitalism with tax cuts for big business at home, to compensate for the trade tensions he has initiated. In the meantime, China had launched the One Belt One Road (OBOR) initiative. This can be fairly described as a neo-Keynesian global geoeconomic project of breath-taking ambition (Ferdinand 2016). The Chinese state has offered to finance infrastructure development projects across (and on the periphery of) Eurasia (Maçães 2018), potentially to the tune of US\$1 trillion. Leading Western states have criticised the non-transparent nature of OBOR financing and governance. There are also concerns about the geopolitical implications of the funding. While the success of Chinese efforts to proactively shape Eurasian trade from the top down is far from guaranteed, the OBOR symbolises a new level of interventionist (non-market led) economic diplomacy.

The EU could be expected to react to the changes in the global political economy as other actors have, although the EU has tended to operate on different processes and timescapes (Holden 2016) to conventional international actors. Superficially at least, over this time period the European Union's external posture has also evolved from being essentially universalist/globalist to a more defensive engagement with the world. In particular, the 'migration crisis', which has led to real tensions within the EU, has also forced it to explicitly adopt a more preventative approach to control population movement, including agreements with authoritarian states rather than pressing them to reform (Lucarelli 2018). Within Europe, Brexit has forced the EU to consider the UK as an economic rival within Europe and inspired it to articulate a more explicit power-based rationale for European integration. EU leaders explicitly put strategic, political thinking above the commercial imperatives of retaining access to the UK's market, emphasising the global power attendant with EU unity (Barnier 2018). There are signs of a more geoeconomically realist stance in general. This is evident in increasing discussion over a more pro-active European industrial policy in response to global challenges, in tension with the liberal norms of EU competition policy (Politico 2019). There are also explicit concerns over monitoring and limiting Chinese investment in key areas as well as (unsuccessful) efforts to prevent EU countries engaging with the OBOR (European Council on Foreign Relations 2016).

In brief, the balance between cooperative liberal globalised economic diplomacy (led by the Western powers) and more geoeconomic interest-based approaches has tilted dramatically towards the latter. Understanding the changes in even relatively liberal powers such as the US, the EU and its member states requires delving a little more deeply into political economy and geopolitics. The Amsterdam School of critical international political economy (IPE) has been devoted to historical and contemporary analysis of the role of the state (political institutions) in relation to different capitalist classes and geopolitics (Van Der Pijl 1984/2005; Van Apeldoorn 2002). In his study of transatlantic relations in the 20<sup>th</sup> century, Kees Van Der Pijl (1984) delineates a 'liberal globalist' class who supported free trade, global institutions and integration (confident that it would benefit their interests) with whom he contrasts 'sphere of interest' capitalists eager for the state to defend specific interests, including though trade protection. After 1945, the liberal globalists triumphed, but the Trump administration could be understood as a reincarnation of the latter tendency. Similarly, a coalition of social, economic and political forces have been behind the liberal globalist 'transnationalist' approach of the EU to economic diplomacy (Van Apeldoorn 2002), but the exigencies of the new era may require new policies. A key factor here is that economic preponderance or the sheer structural power of the West (Strange 1994) allowed liberal globalism to be commensurate with core economic and strategic interests of the US and Europe. As Europe and North America made up almost 50% of global GDP, liberal economic globalisation could, with some tweaks, be easily reconciled with dominant interests. In the famous words of the economic hegemon of a previous era (British Prime Minister George Canning referring to one 'emerging' continent in 1824): 'Spanish America is free and if we do not mismanage our affairs badly she is English'. In the EU's case, to globalise and liberalise in North Africa, Eastern Europe and many parts of Sub-Saharan Africa seemed inevitably to bring them further into the European economic orbit. While this was rivalrous with the US and other Western economies, to an extent there was a mutual reinforcing dynamic to their common activities. In an era of sharper competition from other actors, the question of the balance between global and European interests/perspectives now reasserts itself. A study of the particular class configurations and political forces that underlie this change is beyond the scope of this article, which will focus on tracing the changes to policy and language by the EU institutions.

## **GLOBAL DEVELOPMENT GOVERNANCE, INTERESTS AND VALUES**

While the idea of 'global development governance' is controversial, a broad set of institutions had emerged to regulate this area and promote norms in international development policy. At the core of this are the major Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) donors and the Bretton Woods Institutions. The EU's role within this system is debated (Holland 2008). In the case of the recent changes to global development governance, we can see that the EU influence on global development norms, via the DAC (Verschaeye and Orbie 2018) has been substantial. Likewise, its influence on the key economic philosophy of the Sustainable Development Goals (SDGs) is evident (Holden 2019). Regarding the substance of these norms, when it came to economic policy, neoliberal free market norms have been hegemonic; 'market-oriented policies, and an overall commitment to just and democratic societies' were 'essential' (UN 2002). The Millennium Development Goals (MDGs) themselves (the highest articulation of the global development community in the 1990s) are best described as liberal more broadly, based as they were on a vision of cooperation to achieve political and economic progress and freedom (Ul Haq 1996). Ideas aside, the 'governance' that did take place was informal. In the OECD DAC, peer pressure was and is applied to donors based on agreed guidelines, best practices and policy norms (OECD 2018). This appeared to have some success in gradually phasing out the use of 'tied aid' in some sectors (Holland 2008: 357). The DAC has also shaped the all-important statistical framework for classifying and measuring official development assistance (ODA). The definition of aid was based on altruism, in that aid had to be 'administered with the promotion

of the economic development and welfare of developing countries as its main objective'; military aid and private funding was excluded (OECD 2019). As such, the underlying principle or meta-norm behind the DAC has been a 'virtuous' ideal of aid as an altruistic endeavour, which was not used for the direct explicit economic benefit of donor states (the word 'direct' and 'explicit' are crucial here, as noted below there are very many ways in which aid, even within these guidelines, have been used to promote donor interest). The work of the DAC provided the raw data for any norm supporting actors, such as NGOs, who wished to name and shame donors. The MDGs, although quite superficial, offered a focal point for lobbying and critiquing aid donors on their geographical thematic priorities (Fukuda-Parr and Hulme 2009).

A major challenge to this global governance of development aid arose from the rise of emerging donors (Manning 2006; Woods 2008). Although low if measured in terms of pure ODA, states such as China and India have instigated a massive range of publicly guided South-South cooperation. Such aid is more explicitly linked to the economic and political interests of these donors than has been the case for contemporary DAC donors. However, given its non-conditional nature and the focus on tangible development issues such as infrastructure, this cooperation is much valued by their partner governments. The most striking examples are China's use of aid, loan packages and directed investment by private or semi-state bodies to secure access to resources in Africa, such as Zambian copper or Angolan oil. New economic partners have certainly reduced the power and leverage provided by Western development aid as we enter the 'age of choice' for developing countries (Greenhill, Prizzon and Rogerson 2013). New non-Western dominated institutions such as the China-led Asian Infrastructure Investment Bank have been established. Efforts to acculturate these new donors into the DAC system have petered out. A range of new or revitalised development finance instruments have emerged in response. The UK is foregrounding the role of the Commonwealth Development Corporation (CDC), in post-Brexit development policy. Trump established a new US International Development Finance Corporation, separate from USAID, in 2018, with a ceiling of up to \$60 billion for investments to help compete with China.

However, another challenge to the DAC-led system has come from within, and from European states in particular who under financial pressure have pushed for changes to how aid has been classified (OECD DAC 2018a; 2018b; Manning 2013). This has included counting some of the blended financing arrangements between aid donors and other financial institutions in the public and private sector as ODA (OECD DAC 2016). It has also included some elements of peace and security measures as ODA (OECD DAC 2016), which again has been highly controversial. Arguably most contentious of all, the DAC has agreed that some money spent by developed countries in hosting refugees/asylum seekers can be counted as ODA (OECD DAC 2018a), even though this is the legal responsibility of the states anyway. These three changes have significantly chipped away at the (however superficial) altruistic principles of the DAC. Other changes to global governance have come as the SDGs replaced the MDGs. The SDGs were much richer in scope and thought than the MDGs (United Nations 2015). While there are merits to this, the sheer number of goals and targets tends to denude their normative power (Economist 2015). The sheer volume of goals means that donors cannot possibly be held accountable for their impact on each – they can pick and choose what they support. As to the financing of these, the UN placed great hope on the role of the private sector and mobilising private finance as opposed to just ODA (although the Addis Ababa conference on Financing for Development 2015 did include a note of realism on what could be expected from the private sector). The question of aid to mitigate climate change and the (perfectly valid) stress on other 'global public goods' also mitigate against any distinctions between selfish and unselfish aid. A new category called the total official support for sustainable development (TOSSD) has been developed within the OECD

to attempt to cover all the financial contributions of states (beyond ODA) to this global public good (OECD DAC 2018c).

In brief it is clear that the landscape, norms and methodologies of global development governance have been utterly transformed in recent decades. While there are valid reasons for this, it is apparent that they have occurred in parallel with (and been inspired by) a broader shift in the global political economy. It is equally apparent that they facilitate the use of aid and cooperation for different purposes. In terms of understanding these different purposes more deeply, let us return to the generic theoretical discussion in the previous section concerning the tensions between more universalist/globalist and more particular forms of economic diplomacy. In the specific case of aid, it is clear that it can fulfil a wide variety of purposes for donors. This can be divided into the use of aid for narrow or direct interests (commercial or geopolitical), sometimes described as ‘short-term’ interests, and broader longer-term self-interest (which include altruism and deeper economic and ideological power). These contrasting interests can include:

- Commercial (market access for donor enterprises or tied aid) versus deeper geoeconomic interests (long term investments, economic presence, structural economic changes).
- Short term security interests (alliance with ruling elites) versus longer terms security interests (peaceful social change).
- Short term combating of migration versus longer term reduction of root causes.
- Interests of transnational economic forces versus more specifically national economic interests.

It is clear that the more ‘open’, longer-term and transnational motivations map across to the general conception of liberal globalised economic diplomacy discussed earlier. These have always been commensurate with the traditional DAC regime, while the changes in this regime noted above tend to facilitate the use of aid for the more direct, short-term, self-interested purposes noted. This section now turns to the specific question of EU aid.

Whether the EU’s development aid policy can be evaluated as a whole touches on the classic debate as to whether the EU can be considered an actor in international relations (Bretherton and Vogler 2006). It certainly struggles to meet some of the criteria of a unitary actor much less a rational actor. The shape of EU aid policy, including funding patterns, is to a relatively large extent attributable to historical pathways (Pierson 1996) as much as strategic political decisions. (EU aid funding priorities are less amenable to a mono-causal explanation than, for example, US funding priorities). Yet just as the EU has hammered out a discernible approach to foreign relations, it has evolved coherent uses of development policy and there is a significant body of literature which has interpreted/evaluated EU development policy in the light of its ‘liberal’ foreign policy. The classic concepts of civilian power and normative power (Manners 2006) have been applied to interpret the EU’s use of development policy as a form of liberal globalising economic diplomacy. Much work has focused on contrasting the benevolent altruistic implications of normative power theory with the reality of EU interest-based policy, in line with a standard ‘values versus interests’ dichotomy (Farrell 2005). The interests are primarily understood in terms of different economic and security concerns. From a critical political economy perspective, ‘interests’ and ‘values’ can coincide if the latter are considered to be part of a broader ideology which furthers the long term interest of specific social forces. EU development policy has been understood as supporting neoliberal values, which is a form of ‘normative power’, but one which is aligned with the interests of European economic actors (Storey 2007). EU aid policy in particular has been understood as an instrument to help liberalise and globalise developing country societies and governments in a manner which supported broader

efforts of the EU to develop its structural power in the global political economy (Holden 2009). At the same time, the pervasive neoliberal ideology allowed EU policy-makers to occlude the potential tensions between the reform/liberalisation project and the goal of poverty reduction (as it could be assumed that the latter, with some tweaking, would support the former over time). This liberal globalist approach can be highly universalist, legalistic and moralising, but it relies on confidence that core interests can be protected. In the new era, this confidence is lacking and the remainder of the article will analyse the EU's policy changes in the light of this understanding of the sophisticated interplay between interests and values in the political economy of aid policy.

## **RETREAT FROM GLOBAL UNIVERSALISM? THE EU'S FRAMING OF ITS DEVELOPMENT POLICY**

The EU has invoked different (sometimes contradictory) principles and policies in response to the complex global changes. The initial response of the EU to the financial crisis and global rebalancing were to be found in communications on reforming development policy (European Commission 2011) and on the link between trade and development (2012). The principle of differentiation (between developing states) emerged as a major theme here. Differentiation of different forms has been a feature of EU development policy from the beginning, in particular between the Africa Caribbean Pacific group and other geographical units (while the EU's policy principles have been similar, the institutional formats have varied widely). However, this new form of differentiation was based on income per capita. This allowed the EU to focus aid and trade preferences more on the poorest countries while crafting new forms of partnership with middle income countries (European Commission 2011). This principle had a solid pedigree in the global development policy community based on increasingly obvious differences between least developed countries (LDCs) and emerging economies. However, the enactment of this principle has been heavily criticised from a normative development perspective (Pilke 2016). It has been argued that poverty in many of the 19 countries dropped from bilateral aid programming (none of which were in the EU's neighbourhood or the ACP region) had not been considered and that a new Partnership Instrument for non-aid related economic cooperation lacked any developmental considerations (Pilke 2016). As such, Pilke (2016) understands the policy implementation of differentiation as more concerned with the EU's economic and financial interest. Using aid to support the EU's economic interest is nothing new, but the employment of global development policy norms for this purpose is noteworthy. In reality, a legally rigorous implementation of differentiation in aid policy proved unwieldy and would be adjusted later. Likewise, the implementation of this principle in trade policy had the effect of removing more developing countries (and China in particular) from the General System of Preferences, thus toughening up the EU's approach towards economic rivals (Siles-Brügge, 2014). The trade and development communication for this era was much more explicit about the new geoeconomic context Europe was facing (European Commission 2012; Holden 2017). Unlike previous 'liberal teleological communications', this communication is much more explicit about power dynamics in the global political economy (Holden 2017). The European Commission retained its support for free trade and the global trading system, but also articulated a more combative approach vis-à-vis rising powers. A 2014 communication on the role of the private sector further developed this new pragmatic combination of new development policy ideas with European interests in an era of heightened competition (European Commission 2014: 9), as discussed in the following section.

Concurrently, the EU was developing its own position on the global SDGs, in which similar themes emerged (European Commission, 2013; European Commission, 2015). Given the nature of this subject, the Commission's papers here did not include the more explicit discussion of EU interests

and geo-economic rivalry of EU-focused papers. The Commission – and Council (Council of the EU, 2015) – expound a universalist moralistic vision of the EU's role in providing a 'decent life for all', while at the same time the EU continued to promote the policy of increasing the role of the private sector while in core areas such as trade, the EU was proposing no new commitments and merely pressing others to do more. It focused on the responsibilities of emerging powers like China and ignored problematic EU policy areas such as agriculture and fisheries (Holden 2019). The New European Consensus on Development was another landmark in terms of changing tone and ideas (European Union 2017; Rozbicka and Szent-Iványi 2020). The original consensus was mostly focused on rallying spending commitments and promoting intra-European donor cooperation in terms of established norms and values, including a poverty focus and the needs of LDCs (European Union 2018). The New Consensus included similar principles, but to the dismay of NGOs, included new concerns such as combating migration, noting that (as a part of development policy) the EU and member states will 'fight against the smuggling of migrants and trafficking in human beings, which are sources of instability. Building strong partnerships with countries of origin, transit and destination with sustained, long-term policies'. The Consensus reiterates the hope placed in private sector involvement and blended instruments. It also knots the security-development link even more tightly than before, stressing European security. A phrase on 'engaging' 'with security sector actors' was viewed as opening the door to using aid to fund military operations, although the EU itself is legally barred from doing so (ACT Alliance 2017). Generally, although it included all the expected normative commitments embedded in the new global frameworks (the SDGs), the Consensus was viewed as crowning the predominance of 'short-term political interests' in EU development policy (Oxfam 2017). This 'realism' was also apparent in the mid-term review of the EU's aid instruments, which noted that 'the EU's capacity to promote and mainstream its values agenda (human rights, democracy and rule of law) may be declining', as well as 'the growing weight of stability, security and resilience issues' (European Commission 2017b).

The new paradigm is best exemplified by a document which is not a development policy document at all. The High Representative's Global Strategy reiterated EU values, but stated that its principles would flow from '[a] realistic assessment of the current strategic environment as from an idealistic aspiration to advance a better world' (European Union 2016). It calls for 'principled pragmatism' in a world of 'global power shifts and power diffusion'. This may seem like common sense, but represented a retreat from the globalist pretensions of the EU's turn of the century discourse. While still expounding EU values, there is much less of an emphasis on exporting democracy and more on flexible and differentiated treatment of different societies. It hones in more on Europe's geographical position, noting that it would support 'different paths to resilience to its east and south'. 'Resilience' has become a ubiquitous term, and it has connotations of stability and defensiveness as opposed to the previous discourse of liberal reform and freedom. Development is a big part of this project, including supporting 'a political economy of peace', while it notes that 'development policy also needs to become more flexible and aligned with our strategic priorities' (European Union 2016: 11). The document on the whole 'reinforces a widespread perception that the EU is experiencing a shift from a transformative-liberal power to a realpolitik actor', according to Youngs (2016: 1). However, Youngs also noted that in reality the situation is more complex as the EU retains its values and its legalistic approach. Brexit itself has not greatly affected the EU's global development posture so far. The UK will remain involved in the EU's development policy but the loss of the most liberal globalist of European states seems likely to push the EU further down a more regionalist, if not realist, approach, *ceteris paribus* (Directorate General for External Policies 2017). This broad overview implies that the EU has sought not to abandon its normative ethical principles but to reframe them and make them more commensurate with changing self-interests. The paper now turns to the substantive policy changes in two areas.



## BLENDING INSTRUMENTS

Blending has become a common theme of contemporary development policy, although there is considerable confusion about how to define and measure it (ODI 2019). Blended finance refers to a method of combining aid resources with those of other public financial institutions and the private sector to promote economic development. A distinction has always been made (although as noted it has become muddled) between development finance and 'ODA'. Blended finance involves crossing the line between these two areas to leverage the resources of the private sector more generally. The great hope is that the smart use of public money can mobilise much greater resources from private business. The 'private sector' is a very broad label, which can include everything from small micro-enterprises to large transnational enterprises and financial concerns, however in terms of potential involvement in major development, the latter will inevitably predominate. There are logical developmental reasons for this focus on the private sector. Private investment flows to and within the developing world (UNCTAD 2012; European Commission 2014), dwarf public aid resources and if it can be mobilised more for development, all to the good. Given the limited public finance available to developing governments' rationalisation, the potential of being able to leverage much greater private funds is tempting (and allows for some nice headline figures). In its 2011 reforms, the Commission explained its hopes here of 'leveraging private sector activity and resources for delivering public goods. It should explore up-front grant funding and risk-sharing mechanisms to catalyse public-private partnerships and private investment' (European Commission 2011: 8). However, the document is also direct about more self-interested motivations: supporting the European private sector; 'access to finance and risk sharing instruments in developing countries is also an important prerequisite for EU investors seeking to venture out into these markets' (European Commission 2011: 10). The Commission highlights a number of areas characterised by 'high risk exposure and often unfair international competition that requires action to ensure a level playing field' (European Commission 2011).

The European Investment Bank (EIB), which mostly operates within Europe, has always also lent to the outside world, (in accordance with European foreign policy priorities). It developed a special facility for the Mediterranean (FEMIP), which has funded private sector as well as public sector activities (EIB 2010). In 2007, the EU-Africa Infrastructure Trust Fund was established. This fund (supported by the EU and its member states) would provide grants to projects to help leverage public and private investment. It invests in or provides interest rate subsidies for loans to projects (or offers different forms of risk guarantees or insurance) deemed to have strong externalities in terms of supporting development and sustainability (European Commission and European Investment Bank 2015: 8). Within the European neighbourhood, the Neighbourhood Investment Facility (established in 2008) was a broadly similar instrument. It provides grants from the EU and member states to leverage funding from a range of official public finance institutions and to a lesser extent private sector entities (European Commission 2015: 12). Both of these instruments involved 'blending', mostly with public providers of commercial finance with the private sector involved as implementing partner.

This initiative has proven highly controversial within the development community. In fact, European Commission officials had previously been highly critical of member state aid policies in this regard (Interviews, March 2012). Objections and concerns to the use of ODA for blended instruments have abounded particularly from NGOs. The EURODAD network has been highly active here in producing critical material (EURODAD 2013). They can also rely on some criticism from the EU's own evaluations of the existing instruments. The European Court of Auditors concluded that additionality

often was not demonstrated: the projects may well have gone ahead without the grant offered by the EC (Court of Auditors 2014: 20; Vervynckt 2014). The general criticisms of the existing EU instruments have been that they are lacking in transparency; businesses will inevitably try to exploit these facilities for their own interests; their fulfilment of development objectives is dubious and they are a waste of precious ODA (unless truly additional and for a worthy project). In response to this, the EC has outlined clear criteria that would justify the EC/EUs partnering and financing of private sector investment. These include clear benefits in terms of poverty reduction and sustainability, clear additionality, the potential to catalyse further private sector action and strict social and environmental standards in the business itself (European Commission 2014: 4). The logic here is hard to fault, but applying these principles (of additionality, neutrality, fair burden and reward sharing) will be highly challenging, and possibly arbitrary, in practice. The EC's own evaluations of these instruments have been more positive and Rozbicka and Szent-Iványi (2020) report that NGOs are beginning to accept the principle of private sector partnership.

As geopolitical turbulence and challenges to the EU multiplied, the EU's reliance on these blended instruments increased. The European External Investment Programme was the major response to challenges such as the migration crisis and insecurity in the near abroad and Africa (2017). (This was modelled partly on the 'Juncker plan' – the Investment Plan for Europe – to help combat the Eurozone crisis). It aimed to achieve a massive increase in mobilised finance to support the SDGs and stability. Essentially, the goal was to better harness the latent economic power of Europe; as European Commission Vice-President Jyrki Katainen put it: 'enhance the financial firepower of EU external action' (European Commission 2018c). The EU's financial contribution included the European Fund for Sustainable Development which would (along the lines of the previous instruments) offer grants and (importantly) risk guarantees to support investments by public financial institutions and the private sector. The aim was that this €4.1 billion from the EU's budget would leverage more than €44 billion in funding by 2020. The primary objective of funding was 'the eradication of poverty in line with Article 208 of the Treaty on the Functioning of the European Union (TFEU), thus addressing root causes of migration' (European Commission 2018c). It was aligned with the (by now vast) range of policy frameworks including the European Agenda for Migration, the Addis Ababa Action Agenda on Financing for Development, the Paris Agreement on Climate Change as well as the Cotonou Agreement and the revised European Neighbourhood Policy. The rationale for doing this at the EU level was to facilitate larger scale and strategically coherent activities. The initiative was accompanied by plans to increase the political coherence of EU member states within international financial institutions such as the European Bank for Reconstruction and Development. All of this implies at least a desire for the EU to align the various funding streams of European institutions with a broader strategy based on agreed political priorities. Whether this is actually achievable is a moot point.

Ideologically, these blended finance instruments are something of a hybrid, as although the idea of private-sector led activities is resonant with neoliberal norms, the role of the public aid component in steering and partnering private investment would be looked at with suspicion by neoliberal purists (fears of crowding out and/or distorting private finance flows). The instruments are clearly dual-use in that apart from development/migration control objectives, they are a tool which allow for EU development aid funds to be used to support the EU's economic role in developing countries (while also, at least potentially, increasing the overall political impact of Europe's economic presence). Clearly, they are a part of a broader 'external economic policy' which may not be commensurate in practice with development norms. As such, the EU's increased reliance on these instruments supports the hypothesis that changes in the global political economy and geopolitical environment are requiring it to take a more directly self-interested approach. The comprehensive research thus far (not focused on EU instruments per se) on the operation of these tools argues that blending

instruments are not leveraging anything like the funds hoped for (ODI 2019). This report estimates that funds leveraged 1.06\$ for every dollar (and this is without probing additionality and development impact very critically). It also notes that their operation is particularly weak and problematic in LDCs, which offer fewer commercial opportunities and weaker financial and business instruments (ODI 2019). All of this indicates that the concerns about the impact of this development trend on global poverty reduction and human development are justified.

## THE PROPOSED SINGLE INSTRUMENT

The Commission's proposal to combine all EU aid instruments into a Single Instrument – the Neighbourhood, Development and International Cooperation Instrument (NDICI) – must rank as the single-most important legal-institutional reform ever made to EU/EC development funding. The rationale for the new NDICI was one of 'effectiveness and efficiency' (European Commission 2018a). In particular, it would allow for a more comprehensive and flexible approach to funding (European Commission 2018b). The most salient feature here is that there would be a reserve of €10.2 billion and that resources could be moved 'where they are needed as the international context changes' (European Commission 2018a ). The proposal combines the discursive intermingling of development and other objectives with the integration of hitherto different aid and cooperation legal instruments. There were considerable vested interests within and without the institutions wary of this change (as it could result in less earmarked aid and challenge long-held procedures and relationships), but the idea passed the College of Commissioners and is now in the legislative process, where it will certainly be passed in some form. Before the end of the Juncker Commission, the legal regulation was approved by the Parliament's Development and Foreign Affairs committees, while the largest political grouping, the EPP, is firmly behind it. As such the status at the time of writing is that it is more than a proposal, but not yet a law. This section focuses on the legal texts produced for the instrument. These signify the funding priorities and the overall strategic and normative priorities of the instrument (even if these do not always determine practice on the ground).

As outlined in Table 1 ,the NDICI comprises a vast range of previously separate instruments.<sup>1</sup> It includes the three large geographical instruments and a range of normative (European Instrument for Democracy and Human Rights), strategic (Instrument for Stability) and sectorally specific instruments. It also includes the non-ODA Partnership Instrument (Pilke 2016) and part of the financing stream of the European Sustainable Development Fund. (The very act of putting these explicitly self-interested instruments together with development aid could be deemed significant in itself). Because of this heterogeneity, the regulation is embedded in a wide range of European and international texts (including the relevant parts of the TFEU on development and foreign policy as well as the SDGs and the Paris Agreement). The Commission seamlessly interweaves the very different developmental, normative and strategic interests of EU external cooperation: 'through this proposal the EU will continue to be able to play an active role in promoting human rights, stabilisation, development, security, fighting root causes of irregular migration, trade,' (European Commission 2018b). It also notes the need to sidestep a previous Development Cooperation Instrument provision on ending aid to wealthier middle income countries (differentiation) to offer 'innovative ways of cooperation, as set out in the new European Consensus on Development with more advanced developing countries and strategic partners, in line with the universal coverage of the 2030 Agenda' (European Commission 2018b). As such we see how the SDGs can facilitate (for better or worse) the transcendence of a purist LDC-focused aid agenda.

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<sup>1</sup> There was no specific move to change the organizational balance of power between the European Commission and the European External Action Service.

The heterogeneity of objectives (the mixing of the normative with the self-interested) is nothing new of course for the EU and the geographical instruments have always been ‘broad churches’. The European Neighbourhood Instrument in particular combined a strong foreign policy outlook with development motifs (EC officials would often sharply distinguish it from ‘development policy’ per se although it counted as ODA). However, the extent of intermingling of all of these different objectives in one instrument is unprecedented. It is not a tabula rasa and includes financial envelopes for the key areas, which are roughly in line with historical priorities as well as guarantees that a certain proportion (92%) of the funding would be ODA eligible (European Commission 2018b: 18). There is also a specific chapter and legal framework on the Neighbourhood Instrument to continue special mechanisms associated with that.

The European Parliament’s initial report on the NDICI regulation is illustrative of the struggle over framing development policy in the new era. It suggested several changes, mostly geared towards safeguarding the more values-based, universalist and pro-development element of the document (European Parliament 2019a). Regarding funding, the report calls for an increase in the funds allocated to human rights/democracy and climate/environmental protection activities and also calls for increasing the percentage of funding that fulfils the criteria for ODA (European Parliament 2019b). While it also supported increasing the overall budget to €93.154 billion, it suggests reducing the strategic reserve to 7 billion. Changes are proposed to the text are to focus more explicitly on LDCs (European Parliament 2019b: 9;19), making climate change more central (11), adding texts from UNCTAD to the relevant global documents (13), promoting a ‘values-based’ as well as a ‘rules-based’ global system (8) and adding the objectives of democracy and human rights to the Commission’s core objective of economic development for neighbouring states (20).

Table 1. The list of aid instruments that would be integrated into the Single Financial Instrument

The European Development Fund
The Development Cooperation Instrument
The European Neighbourhood Instrument
The Partnership Instrument
The Instrument Contributing to Stability and Peace
The European Instrument for Democracy and Human Rights Worldwide
The Instrument for Nuclear Safety Cooperation
Macro-financial Assistance
Support of Small and Medium-sized Enterprises (Infrastructure and Climate Change)
Guarantee Fund for External Action
European Fund for Sustainable Development, its Guarantee and its Guarantee Fund

Naturally, there has been a lot of attention and criticism devoted to the Commission’s radical proposal (especially in the light of the trends already noted). The streamlining of aid concerned various institutional interests (member states and the Parliament), as well as the obvious concerns of development CSOs that it would favour ‘short term political interests’ over the EU’s poverty

reduction and global development objectives (ECPM 2018b: 3). How would the weighting given to each of the – fundamentally important – objectives such as peace, security, stability in the near abroad, development and economic cooperation be worked out? Much attention has focused on the mechanics of the reallocation of funds and safeguards for its use including a cap on using it for any one policy area (EDCPM 2018a). There are different interpretations of this process. In the case of the Neighbourhood Instrument, which was already highly geopolitical and strategic, Furness and Keijzer (2018) argued that including it in the Single Instrument could actually ‘development proof’ it by at least assuring it was aligned with ODA principles and the SDGs. As Keijzer (2018) notes however, in the Commission’s proposal poverty reduction and the SDGs are not as prominent as they might be, while the ODA/DAC discipline has slackened in recent years. He suggests to work towards ‘SDGs-driven allocations [...] combined with a detailed results framework’ but given the broad expanse of the SDGs it is not clear how much of a discipline this would be either.

This initiative bears out the political and geoeconomic dynamics postulated earlier. The change in political framing and broad policy framing has been accompanied by a major legal innovation. While in previous eras the array of different geographical and legal instruments (working towards a gradual liberalisation and cooperation or integration with the EU) sufficed, under the pressure of the new environment this is not enough. There are a range of logics here, including valid justifications regarding efficiency and the coherence of aid. However, one can also detect concerns of geoeconomic utility and in particular the pressures of the ‘migration crisis’. The salient feature of the new instrument is how it allows funds to be transferred relatively rapidly and that is more likely to be needed in the case of a surge in migration. This facility is also useful if one considers a sharpened sense of real-time geoeconomic competition where the EU might feel the need to move funds to a specific region or country in the light of new circumstances. The possibility of combining previously different baskets of funds for development and economic cooperation (including private flows) also multiplies the potential political and economic impact of the EU’s activities. As noted above however, attempts to make aid instruments more facilitative of the EU’s foreign policy and economic interests have been resisted by other actors in the Parliament, which are more wedded to traditional development modalities and norms.

## CONCLUSION

The assumption that geoeconomic changes have inspired changes in the EU’s development policy is at least partially borne out by this study of the EC’s framing of policy and policy instruments. It is clear that the increased heterogeneity of global development governance, including the stress on new modalities of aid, the range and universality of the SDGs, opens windows for development aid to be used in a more egregiously self-interested ways. The EC has been a major player in these changes and it has used them to create new frames linking development, security, economic interest and migration in its own development policy. While it has retained its values, there is much more political realism and less emphasis on liberal reform of the state. Its new policies are ‘dual use’ in that while they may be used for more creative and flexible interventions in support of development, they are also be useful for geoeconomic or other strategic interests. It is worth noting that while the globalist neoliberal approach to ‘aid and reform’ has done a lot of damage to human development by overreliance on market forces, a new turn towards statist geoeconomic development policy would also be in tension with human development ideals. If this does become the dominant trend, many non-strategic LDCs will continue to be ignored, while the plight of the poor in middle income countries will not be a major concern and the environmental implications of global neomercantilism are even more negative than those of global neoliberalism (given the reduction in global collaborative capacity).

The change on the part of the EU is not as dramatic as the account of the global transformation may have implied. The EU has equipped itself with new instruments that allow it to use aid funds to more directly support the European private sector, in theory. The new Single Instrument would allow an unprecedented level of flexibility in many senses. Its policy framing does reflect the new, more geoeconomic realist world posited. As such it bears out the theoretical expectations that the EU institutions would respond to the changing geoeconomic context and socio-economic configurations by steering development policy away from the global neoliberal approach that had dominated. However, it would be overstating things to explain the precise changes in development policy primarily in terms of global geoeconomic challenges. The EU, for better or worse, does not change easily and its liberal values and legalistic approach are still evident, despite the aforementioned changes. There is nothing remotely hinting at the full-blown geoeconomic realism of the Trump administration or emerging powers. It would be premature to say that EU development policy has been totally subsumed by other considerations (given that it has always been interwoven with other political considerations and interests). Here it is always worth noting that EU member states have their own instruments and funding sources to support their own corporations and interests globally. The major geoeconomic role of the EU is in ensuring market access and gaining critical mass from collective funding instruments. The framing and the deployment of the new development policies makes it clear that, in terms of European self-interest, it is controlling migration rather than economic concerns that dominate and this is where normative human development objectives are most likely to be skewed. There will be a fruitful research agenda in exploring how the various security-related, geoeconomic and normative objectives interact in the new policy instruments in the future. On the more applied level, there is room for extensive work on how to monitor and programme aid within such a heterogeneous policy context. While the EU is engaging in legal integration of its development policy and trying to shape a new, more coherent approach, it has also generated new contradictions and new forms of complexity.

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